

DAILY REPORT ON RUSSIA

AND THE FORMER SOVIET REPUBLICS

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RUSSIAN FEDERATION

Politics

Ivanov Outlines Military Reform Measures

• Newly appointed Defense Minister Sergei IVANOV, in an interview with the military daily Krasnaya Zvezda, said the army should prepare for sweeping reforms which will include troop cuts, restructuring of missile forces, a rationalization of weaponry, and tighter budgetary controls. IVANOV said he plans to push through reforms, stalled by bickering among generals as to which forces to cut. The Defense Minister said that he intends to cut troops by 365,000 over the next three years. The current number of troops is estimated to be 1.2 million. He stressed that the cuts would be made in a way that would not diminish the army's command and control, combat readiness, or combat capability. He promised to raise the pay for army's professional soldiers and contract soldiers, increasing it by 60 percent to 100 percent over the next 10 years. Plans also include the restructuring of the army's strategic missile forces, including Russia's ground-based nuclear missiles. The space forces, responsible for satellites and missile defense, will be taken out of the strategic missile forces and be made a separate unit. This will reverse the merging of those forces in 1997, the Financial Times reported. Improvements will also be made in the logistics of warehousing, transport, and healthcare for military and paramilitary forces, under the Interior Ministry, integrating the services. The army would also prepare a single technical policy for weaponry, unifying the standards of various types of weapons and military technology. IVANOV said budget constraints had forced Russia to spend 70 percent of its military budget on maintaining its large armed forces, limiting the funds available to be spent on modernization and equipment and technology. "Gradually, the ratio will be improved

to 60 to 40 percent by 2006 and to 50-50 by 2011," he said.

N. Korean Defense Delegation Visits Russia

• A North Korean Defense delegation, led by KIM Il Chol, vice-chairman of the North's National Defense Commission and Minister of the People's Armed Forces, is scheduled to arrive in Moscow today. The purpose of the visit was not released to the public. North Korea's media has stepped up anti-US rhetoric since US President George W. BUSH took office and expressed concerns about dialogue with the North. BUSH's open doubts about the accountability of North Korea in negotiating have drawn an angry response from the North. Earlier this month the US and South Korea held a joint military exercise, further angering North Korea. The exercise involved South Korean forces, US troops stationed in the South, and US personnel brought in from overseas. There are 37,000 US troops stationed in the South, which remains technically at war with North Korea under a 1953 armed truce still in effect.

Russia To Develop North-South Corridor

• Russia is developing a North-South transcontinental transport corridor, connecting Moscow, Volgograd, and Astrakhan and the Caspian Sea. An agreement on cooperation between the Astrakhan Region and *New Programs and Concepts*, a major defense-industry holding, was signed in Astrakhan on Wednesday by Astrakhan Governor Anatoli GUZHVIN and Boris KUZYSK, director-general

of the holding, Itar-Tass reported. The agreement provides for the development and improvement of the transport infrastructure of the Astrakhan Region, for the purpose of increasing the transportation of export, import, and transit cargoes. A Russian shipping company will be created in Astrakhan. The volume of trade turnover between Europe and Asia will be increased in the northern part of the Caspian Sea through the use of boats of the *North-Western Shipping Company*, which is integrated in the holding, and of new dry-cargo ships of the river-sea type. The time needed for the transportation of cargoes will be reduced by 20 percent to 30 percent, and transport expenditures by 20 percent to 25 percent. The Astrakhan River and sea transport conjunction will be one of the key facilities of the infrastructure of the Russian part of the North-South corridor. It will include the Astrakhan consolidated port and the seaport of Olya.

Economy

<p>Ruble = 28.90/\$1.00 (NY rate) Ruble = 28.91/\$1.00 (CB rate) Ruble = 26.07/1 euro (CB rate)</p>

Russia To Increase Oil Export Duties

- Russia has prepared draft legislation on taxes for oil companies that includes setting higher crude export duties in a sliding scale linked to world oil prices, *Izvestia* reported. The government will soon submit these proposals to the Russian State Duma for review. Exporters will be taxed 2 euros (\$1.80) a ton when Russian export blend Urals crude is priced from \$12.50 to \$15 a barrel, increasing to 17 euros a ton at \$20 a barrel and to 66 euros a ton when oil is \$32.50 a barrel. The bill assumes Russian oil companies' combined net income will reach 325 billion rubles (\$11.3 billion) a year with domestic sales to reaching 680 billion rubles in 2002, based on average export crude prices of \$17 to \$18 a barrel. Russian companies will spend 225 billion rubles in 2002 on capital expenditures, according to Finance Ministry estimates. Russia now imposes crude export duties ranging from 2 euros a ton to a maximum of 48 euros a ton.

Business

Gov't In Control Of Gazprom's Leadership

- The struggle for who will lead *Gazprom*, Russia's

largest company, is coming to a head as *Gazprom's* Chairman Rem VYAKHIREV's contract expires at the end of May. At a shareholder meeting late Wednesday, *Gazprom's* board of directors voted down a motion that a unanimous board approval would be required to dismiss VYAKHIREV and postponed a contested share subscription. The Kremlin last summer restructured the board so that it would hold five out of the 11 seats. The government owns a 38 percent stake in *Gazprom*. The board must either re-elect VYAKHIREV or choose a successor. The government so far has not announced any possible replacements, the *Financial Times* reported.

Gazprom is a huge company with subsidiaries *Gazprombank* and *Gazprom Media*, which took over *NTV* as well as stakes in *Trud*, *National Reserve Bank*, *Oskolsky Electro-Mechanical Combine*, and *Ledebinsky Mining Enrichment Combine*. It accounts for the production of a quarter of the world's gas and one fifth of Europe's imports. It continues to supply gas to Russia's regions despite not receiving payments. *Gazprom* receives most of its revenue from exports to the West, including Germany, which takes some 40 percent of its supply from the Russian gas producer. *Gazprom* makes up a major portion of Russia's tax revenues.

Economics and Trade Minister German GREF has criticized plans by *Gazprom* to maintain its controlling stake in *Sibur* by contributing \$1.2 billion in cash and shares. He was disappointed in the inadequate information provided on how much cash and what other assets *Gazprom* would provide in order to subscribe to the issue. Minority investors, led by board member Boris FYODOROV, are demanding an independent audit of *Gazprom*, stemming from accusations of asset stripping. *Gazprom* denies allegations that billions of dollars' worth of assets have been siphoned off to subsidiary companies at shareholders' expense. Two possible companies, which may have benefited from *Gazprom's* diverted funds or discounted asset sales, are *Stroytransgaz* and *Itera*. *Stroytransgaz* has \$1.2 billion in pipeline orders, 80 percent of which were placed by *Gazprom*. The shareholders of *Stroytransgaz* include the son of former prime minister and *Gazprom* chairman Viktor CHERNO-MYRDIN and the daughter of Rem VYAKHIREV. *Stroytransgaz* chairman is Arngolt BEKKER, also

a Gazprom board member. In 1995 *Stroytransgaz* received a 4.8 percent *Gazprom* stake at a cost of \$2.5 million. FYODOROV's investment bank, United Financial Group, estimates the real value at that time was \$80 million, The Times reported. *Itera* is also accused of reaping the benefits from discounted *Gazprom* sales. FYODOROV further points out that *Gazprom's* reserve per barrel is valued at about \$0.05 on the stock market, but *Exxon Mobil's* barrels are worth \$13. A change in the company's management would increase the likelihood of a proper investigation of *Gazprom's* management and accounts. Investors have long complained about the lack of transparency and accounting standards in Russia. This has cost Russia \$10 billion per year in direct foreign investment, according to a *Price-waterhouseCoopers* study published this week.

EUROPEAN REPUBLICS

Ukraine Ousts Prime Minister Yushchenko

- Ukraine's parliament, in a final vote of 263 to 69, ousted Prime Minister Viktor YUSHCHENKO, escalating the political crisis and protests in Kiev. The Communist Party sponsored the no confidence resolution, accusing YUSHCHENKO and the government of failing to improve the economy and leading the country to ruin. It is unclear whether the Cabinet will also be dismissed or will remain until a new government is formed, within 60-days. Ukrainian President Leonid KUCHMA, who has repeatedly criticized the government and failed to back his prime minister publicly, earlier warned that the government's breakup would not be in Ukraine's best interest, Reuters reported. Nearly 15,000 YUSHCHENKO supporters took to the streets in Kiev and marched to the parliament. Outside protestors shouted, "Shame, shame. KUCHMA out, KUCHMA out," while inside YUSHCHENKO said, "I am not leaving politics. I am leaving so I can return." Addressing the crowds as he left the parliament building, YUSHCHENKO said, "I said this government would be for the people and for all the citizens of Ukraine. Thank you to all those who supported me and my government for the past one and a half years." Opposition deputies in turn called for KUCHMA's impeachment. Around 3,000 protesters marched to KUCHMA's residence nearby,

confronted by lines of armed police.

YUSHCHENKO, the former Central Bank chairman, was well-liked in the West and by international lending institutions for pro-reforms stance. He is credited with reviving chronically sluggish economic reforms, paying a significant portion of overdue wages and pensions, and achieving the first signs of economic growth since Ukraine gained independence. Polls showed YUSHCHENKO was Ukraine's most popular politician with a reputation for honesty in a country notorious for corruption. Deputies said the divisions in parliament meant only a complete unknown could be nominated to replace him. Some speculate that Labor Party leader Sergei TYHYPKO, who is also well respected in the West could replace YUSHCHENKO.

US Experts To Identify Corpse

- Two US forensic experts have arrived in Ukraine to help identify the corpse believed to be the missing internet journalist Georgy GONGADZE. GONGADZE, an outspoken critic of alleged high-level corruption, went missing in the capital Kiev in September. Russian experts have concluded that a beheaded body found near Kiev in November was his. But German experts, who examined samples supposedly taken from the same body by GONGADZE's associates, cast some doubts on the Russian conclusions. GONGADZE's mother has demanded a new examination. The US team along with 10 Ukrainian experts started to examine the body today. GONGADZE's remains and tapes released with a voice allegedly President Leonid KUCHMA ordering his murder have sparked the biggest political crisis since Ukraine gained independence. The US team, consisting of an FBI laboratory DNA expert and a forensic pathologist with the US Armed Forces Institute of Pathology, met Tuesday with officials from the Ukrainian chief prosecutor's office and the Foreign Ministry.

SOUTH CAUCASUS & CENTRAL ASIA

Shevardnadze Said Transition Will Be Smooth

- Georgian President Eduard SHEVARDNADZE told a government session on Wednesday that, "the introduction of a Cabinet of Ministers [in Georgia] will not cause a revolution," the Caucasus Press

reported. A poll conducted showed that 70 percent of Georgians favor the establishment of a Cabinet of Ministers. The Mayor of Tbilisi Ivan ZODELAVA has expressed his support of SHEVARDNADZE's proposal. He said that a Cabinet of Ministers should have been formed earlier, as it is very hard for one State Ministers to take care of all the administrative problems. The Mayor said that representatives of the Citizens' Union of Georgia Party must form the Cabinet of Ministers. This is another indication of President SHEVARDNADZE's profound political skill at assessing the correct moment for implementing substantial political change. The President, who has faced almost continuous threats to his country's sovereignty and his own personal survival, appears ready to implement new changes which will no doubt result in the reordering of a government which has been unable to manage its financial affairs to ensure payment to its employees and retirees.

On opposition leader, Levan GACHECHILADZE is calling for the dismissal of the Georgian government for not fulfilling a cut version of the 2000 budget. The government could not fulfill the budget, leaving a deficit of over 120 million lari. GACHECHILADZE believes that a precedent should be set of dismissing a government that does not fulfill the budget, Prime News Agency reported. Prior to the cuts, the 2000 budget estimated that revenues would be 839.3 million lari and expenses would be 1.117 billion lari. The expenses were cut by 318 million lari, while revenues were reduced by 188 million lari. He points out that the parliamentary majority is unlikely to support this initiative as the faction is only represented by 11 deputies.

Georgia To Bans Nonferrous Metal Exports

- The Georgian Fuel and Energy Ministry called on parliament to ban the export of nonferrous metals in order to stop the theft of power lines, Prime News Agency reported. Since 1998, thieves have stripped 1,887 kilometers of high-voltage power lines and sold the metal to foreigners for profit. Georgia, including Tbilisi, has suffered from severe

power outages. Georgians typically have only two hours of electricity.

Turkic Speaking Nations Summit Opens

- A summit of the heads of Turkic-speaking countries opens today in Istanbul. Representatives of Presidents of Turkey, Uzbekistan, Kazakhstan, Kyrgyzstan, and Azerbaijan will be attending the summit along with Turkish businessmen to discuss prospects for the development of mutually beneficial cooperation and the consolidation of the relations of Turkic-speaking nations. Turkmen President Saparmurat NIYAZOV and President Geidar ALIYEV will be attending. The summit will focus on economic and cultural integration of Turkic speaking countries. They will also discuss regional projects such as Trans Caspian gas pipeline, Baku-Tbilisi-Ceyhan oil export route, and efforts to restore the Great Silk Road. Presidents are scheduling bilateral talks on the sidelines of the summit.

Kazakhstan Supports B-T-C Route

- Kazakhstan's Deputy Prime Minister and Energy and Mineral Resources Minister Vladimir SHKOLNIK said that Kazakhstan will pump oil through the Baku-Tbilisi-Ceyhan, but not earlier than 2006 to 2007. Work on the route is expected to be completed in 2005. He did not comment on the volume of the oil because that amount will depend on the analysis of scientists. He stressed that the oil will come from the remains reserves, after Astana fulfills its commitments to the *Caspian Pipeline Consortium (CPC)*. This includes reserves from Kazakhstan's Caspian fields including Kashagan. He said that the Baku-Tbilisi-Ceyhan pipeline is "sufficiently attractive." He noted that Kazakh authorities will make their final decisions based on the economic viability of the pipeline. The task of the government, SHKOLNIK said, is to create all the necessary conditions for private companies to transport their petroleum. However, the companies "must decide themselves through what pipeline it is more profitable to transport their petroleum and into what pipeline projects to invest their money."

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